AGRICULTURAL OUTLOOK DIGEST

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ACREAGE FOR HARVEST LARGEST IN A DECADE

Acreage for harvest this year estimated by USDA on July 1 will total 303 million acres, the most since 1960 and 13 million acres more than last season.

Feed grain acreage is up almost 8 million acres; the bulk of the increase is in corn. Corn prospects, given the blight uncertainty, were judged too early to call, but acreage for harvest is up 12 percent. Early indications based on average yield trends point to a larger grain sorghum crop. A good boost is in prospect for barley, but another decline is ahead for oats.

With strong expansion in spring wheat and rye, food grain acreage for harvest is an estimated 4½ million acres bigger. Food grain production is indicated up 12 percent.

In contrast, oilseed acreage may barely exceed last year.

	Acreage for harvest estimated on July 1, 1971	Change from 1970's harvested acreage
	Million	*Percent*
FEED GRAINS	107.2	+9.3
Corn for grain	64.5	+12.4
Sorghum for grain	16.6	+21.1
Oats	15.8	-15.1
Barley	10.3	+6.3
FOOD GRAINS	52.1	+9.9
All wheat	48.5	+9.5
Winter wheat	33.2	-0.8
Durum wheat	2.7	+33.1
Other spring wheat	12.6	+42.8
Rye	1.8	+21.5
Rice	1.8	0
OILSEEDS	58.3	0
Soybeans	42.8	+0.9
Cotton (planted acres)	12.4	+3.8
Peanuts	1.5	+0.1
Flaxseed	1.6	-43.6
TOBACCO	0.85	-5.2
ALL HAY	63.6	+0.6
ALL CROPS	302.6	+4.5

FARM INCOME RECOVERY

During the first half of this year, realized net farm income rose from the fourth-quarter 1970 low. During the second half, gross income will climb and net income probably will improve further.

First-half 1971 cash receipts matched the record $50-billion annual rate of the year before. Larger receipts for crops offset smaller livestock receipts. Crop prices were a tenth higher and returns to producers advanced for corn, barley, wheat, soybeans, cotton, fruits, and vegetables. Smaller livestock returns were caused by lower pork and egg prices.

Gross farm income, which includes nonmoney income and Government payments as well as cash receipts, was not much different than the $57½ billion of the first half of 1970.

The high gross income level, however, wasn't sufficient to repair damage done by sharply higher production expenses during the 6-month period. Expenses ran $2 billion higher compared with the first half last year, hitting a $42½-billion annual rate. Inflation continued to add to outlays for purchased production items, and the cost of taxes, wages, and interest was higher. Early 1971 purchased feed prices, up an average 9 percent, contributed heavily to increased farming expenses.

Higher production expenses left first-half net income at a $14.7 billion annual rate, compared with a hefty $17-billion rate for first-half 1970, and up from the low fourth-quarter 1970 level.

BRIGHTER SECOND HALF

Second-half cash receipts for farm marketings will run at a higher annual rate than in the first half of 1971. Both crops and livestock will yield higher returns. The increase is likely to be large enough to offset a continued rise in production expenses and also make up for a sharp drop in Government payments under the Agriculture Act of 1970, leading to higher net income in the second half of 1971 than a year earlier.

A contraction in hog marketings towards the end of the year could bring prices up compared with last fall. Fall broiler prices will be down seasonally, but above a year earlier, and egg prices should improve enough to end the year on a par with 1970. Turkey prices probably will better second-half 1970 levels, milk income is slated to increase some, and strong demand and tapering hog supplies should sustain beef prices over 1970 levels despite larger marketings.

Meanwhile, cash receipts for crops are likely to exceed the second-half 1970 level. Even though a sizable increase in crop output is likely this fall, crop prices have been strong this year and carryovers of major crops are smaller, which will temper the seasonal decline in fall crop prices.

Government program payments to farmers, which have matched the 1970 figures so far, will drop 10-15 percent for the year from the $3.7 billion of last year. The reduction will come this fall, when payments decline under new farm programs. The reduction will be concentrated on feed grain crops.

MORE WHEAT AND LOWER PRICES

The 1971/72 wheat supply is 2¼ billion bushels, slightly higher than in the prior season. The possibility of a large harvest of feed grains this fall and near certainty of smaller wheat exports in coming months suggest that wheat disappearance will fall short of last season's high level of over 1½ billion bushels. Prices in 1971/72 will average below the $1.34 per bushel of last season and the July 1972 carryover could be up more than 100 million bushels from the 730 million-bushel level this July.

The new wheat season has begun with a reduced carryover, down from 885 million bushels a year before, following a year of high-level use. Smaller wheat harvests abroad, especially in Europe, made for wheat exports of 735 million bushels. At home, high corn prices following the reduced harvest spurred record wheat feeding of 214 million bushels.

An increase in 1971 production more than offsets the smaller 1971 carryover. In a dramatic turnaround, excellent yields have developed in the Central Plains and erased early season prospects for a drought-reduced winter wheat crop. While hard red winter wheat production is indicated down a little, bumper crops of soft red winter wheat, durum, and spring wheat are developing, and the white wheat crop in the Northwest equals last year's. Indicated total wheat output this year tops 1½ billion bushels.

HOW MUCH FEED WHEAT?

Wheat feeding holds the key to domestic use in the 1971/72 season, since food and seed use should approximate the 585 million bushels of 1970/71. This season's feeding level will largely be determined by feed use this July-September, which typically accounts for well over half of the season total.

The July-September feeding rate will hinge on the wheat-corn price relationship. In 1969 and 1970, corn sold over wheat and wheat feeding rose sharply. But corn acreage for harvest is way up and other feed crops look larger. A large feed grain output could drop corn prices materially and reduce wheat's feed use.

WHEAT EXPORTS DOWN

Good wheat crops abroad could drop exports substantially below last year's high level of 735 million bushels.

Short wheat crops abroad, mainly in Europe, were a stimulus to exports in the past season. But this year world production is up. The United States, Canada—where seeded acreage apparently doubled—and Europe account for most of the expected gain, but other wheat producers are also looking for larger crops.

LOWER PORK OUTPUT

USDA's June Hogs and Pigs Report presages a turnaround in hog slaughter beginning in late fall and continuing into early 1972. Prices to producers thus might show only a limited seasonal decline from summer to fall.

For the next few months, hog slaughter's heavy pace, which began last summer following a period of enticing hog-feed price ratios, will continue. On June 1, a record 29.6 million hogs weighing 60 pounds or more were being prepared for market, a tenth more than last June. These porkers will help continue through summer an unprecedented commercial production level for pork:

Commercial pork production, excluding lard and rendered pork fat

	1970/71	Change from year earlier
	Mil. lb.	*Percent*
June	964	+1
July	970	+2
August	943	+7
September	1,073	+8
October	1,188	+8
November	1,003	+22
December	1,109	+24
	1971	
January	1,051	+21
February	929	+16
March	1,076	+24
April	1,137	+14
May	1,015	+17

The number of younger pigs on farms for fall slaughter was 2 percent fewer than last June. This suggests a turnaround from the burdensome slaughter trend, but the distribution among weight classes indicates slaughter will stay up with year-earlier levels until late fall.

Reported farrowing intentions and trends in pigs per litter for the rest of 1971 suggest a pig crop 8 percent smaller than last June-November's record. With these early indications, pork supplies in the first 6 months next year would be curtailed.

The turnaround in hog production in the months ahead probably signals higher live hog prices this November-December than last.

As production soared last fall and winter, prices fell. By late fall they had nosedived more than $9 per hundredweight below their $25 summer peak (7 markets combined). Market prices continued around $16 per hundredweight until mid-winter. Prices have pulled up since, and in late July they were around $20.

Prices will be heading down again with the usual autumn production swell. But the decline almost certainly will be limited by the slowing pace of fall slaughter. Last-quarter prices could go higher than the $16.40 average at 7 markets during fourth-quarter 1970.

FARM EXPORTS GAIN

A new record for farm exports in the fiscal year ended July 30 drives home the importance of foreign markets for domestic producers.

Exports hit $7.8 billion—16 percent over anything we've done before. We shipped over half of last year's output of rice, wheat, and soybeans and products, nearly two-fifths of the cattle hides, over a third of the tallow, tobacco, and cotton, and a fifth of the feed grains which farmers sold, dry edible beans, lemons, and nonfat dry milk.

The gain was in commercial sales, not Government donations or sales for foreign currencies. While the value of these food aid shipments was about the same as the $1.0 billion shipped in 1969/70, the commercial side was up to $6.8 billion from $5.7 billion. Big sales gains occurred for soybeans, meal, and oil, wheat, cotton, and inedible tallow. A larger volume of goods shipped accounted for most of the export gain, but higher prices also played their part.

Commercial exports were aided by much larger shipments under 2 Government programs considered as commercial: Sales for credit by CCC, which hit $391 million, and barter exports for overseas procurement, pegged about $830 million.

ORIENTAL MARKET FLOURISHES

The Orient has proven to be an amazing market for our farm goods. With burgeoning economies and rising population, nations of the Far East took $2.5 billion worth of U.S. agricultural products in 1970, up $½ billion from 1969. And further rise is possible in 1971.

Star on our oriental horizon is Japan, a top economic power. U.S. exports of farm products to Japan, which is heavily industrial but food-deficit, increased 30 percent last year to $1.2 billion. "Grown in America" has become as common on Japanese tables as "Made in Japan" is on our store counters.

Here is an idea of how Japan has grown and increased business with us during the past year:

JAPAN	1970	% change from 1969
Land area	143,000 sq. mi.	(about = Montana)
Population	103 million	+1
Income per capita	$1,515	+10.3
	Billion dollars	
Current dollar GNP	196.6	+18.1
Total exports	19	+18.8
To the U.S.	5.3	+6.9
Total imports	18.9	+26
From the U.S.	5.1	+24.7
Agr. imports	4.1	+24
U.S. agr. exports to Japan	1.2	+30
	(1965 = 100)	
Consumer price index	128.8	+7.7
Wholesale price index	111.4	+3.7
Industrial production	217.4	+16.9
Agricultural production	111	-2.6

The Republic of China (Taiwan), like Japan, boasts fast-gaining wealth and promises to become a larger market for U.S. farm goods. Taiwan received U.S. agricultural exports, mostly soybeans, wheat, cotton, and tobacco, totaling $123 million in 1970.

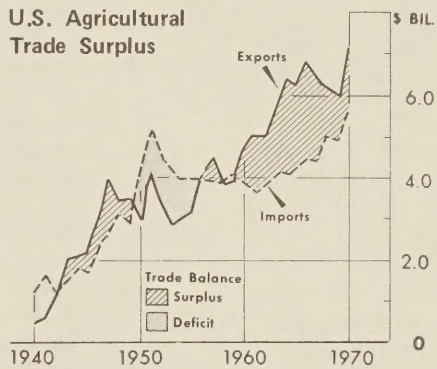
Projections for 1968-80 indicate Taiwan's rapidly growing potential. While the population increases from 13.7 million to 17.4 million during 1968-80, GNP in constant 1964 dollars may double and income per capita rise four-fifths. Taiwan's import needs will soar. Compared with 1968, projected corn and soybean imports in 1980 will double, cotton and wheat import requirements will rise about two-thirds, and higher-grade tobacco and dairy-product imports will gain substantially.

EXPORTS AID BALANCE

A strong net export position for our trade in farm products has benefited the U.S. balance of payments steadily since 1961.

The plus factor comes mainly from increasing commercial farm exports, which achieved a record $6.1 billion in 1970 and have further increased this year. Additional contributions come from commodities donated or sold under food aid programs.

Agriculture's net contribution—commercial and noncommercial exports minus imports—to our trade balance peaked at over $1 billion in 1966 and 1967, drifted back, and last year improved to $762 million.



Looking at total U.S. trade last year, we had a commercial trade deficit of $841 million, but noncommercial exports under various foreign aid programs swung the total trade balance to a surplus of $2.19 billion.

This surplus contributed positively to the overall balance of payments position, which includes inflows and outflows of capital as well as trade. Last year, our net balance of payments worsened by $10.7 billion. This is on the "official reserve" basis, measuring only money owed to central banks of foreign nations. And, in the first quarter of this year, despite considerable improvement in commercial farm exports, another $5.5 billion accrued to our balance of payments deficit.

The main cause of the dollar outflow during the last year was higher short-term interest rates in Europe than in the United States, attracting the dollars of American investors.

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MORE MILK PRODUCED

Milk output in 1971 has edged over 1970 monthly levels so far, and is running a little higher in the third quarter. Heavier feeding of grain and concentrates has boosted output per cow, while the decline in milk cow numbers has continued the gradual slowdown which began in 1966:

Change in milk cow numbers, 1966-71

	Change from year earlier	
	January-June	July-December
	Percent	
1966	-6.0	-5.5
1967	-4.5	-3.9
1968	-3.6	-3.2
1969	-3.0	-2.4
1970	-1.7	-1.2
1971	-1.0	

MANUFACTURING PRICES RISE FURTHER

Following an April 1 boost in support purchase prices, the second-quarter manufacturing grade milk price averaged $4.76 per hundredweight, 21 cents more than the same quarter in 1970.

Second-half manufacturing milk prices probably will rise. Seasonally higher wholesale dairy prices and seasonally higher average fat test will keep prices moving up.

Milk sold to dealers for fluid use, linked by price formula to the manufacturing grade prices, moved up to average $7.11 per hundredweight in the second quarter, 21 cents over a year earlier.

WE EAT MORE CHEESE

Cheese is fast approaching butter as the largest manufacturing outlet for milk. Last year, 20 billion pounds of milk, almost a fifth of the total supply, were made into a record 2.2 billion pounds of cheese.

Cheese consumption continues to climb. Per capita consumption grew little during the 1950's, then jumped over a third in the last decade to 11½ pounds in 1971. Per capita consumption probably will keep going up—to about 14-15 pounds by 1980.

There are several apparent keys to growing cheese use despite some large price rises in the past few years. Rising income seems to signal larger purchases of cheese. Pizza's popularity has catapulted use of Italian-type cheeses. We are eating more processed cheese food and spreads, and a lot more is going into snacks and other processed foods. Also, retail marketing innovations have multiplied the number of package sizes and convenience forms of cheese shoppers can buy.

FRESH VEGETABLE CROPS SMALLER

Potato, sweetpotato, dry bean, and fresh vegetable growers all plan less acreage this summer and early fall. And although acreage increases are in store for most of the leading processing vegetable crops, the overall expansion of 2 percent is quite modest in light of reduced canned and frozen stocks going into the 1971/72 season.

Late summer potato production is forecast 2 percent less than 1970 with the same or larger supplies coming from Washington, California, Wisconsin, and Minnesota, but less from Long Island, New Jersey, Michigan, and Colorado. Some price improvement is likely before the main fall harvest and seasonal price decline begin.

Acreage of the important fall crop may nearly equal a year earlier. Decreases in the 8 eastern States and 8 western States offset an increase in North Dakota in the central region.

Sweetpotato production may fall 15 percent for the smallest crop of record. North Carolina and Louisiana, the major States, will supply nearly three-fifths of the 1971 U.S. output.

Acreage of dry beans for harvest is down 3 percent; even with average yields, the U.S. crop still could be 2 percent less than the relatively small 1970 crop. With lighter carryover stocks expected, this points to firm to strong prices for most classes. Export demand should hold strong.

Acreage of 8 of the 10 processing vegetables is 2 percent larger than a year earlier but 5 percent less than 1969. This acreage suggests a total canned pack the same size or slightly larger than the 1970/71 season. July carryover stocks were probably the lowest since the summer of 1968. Canners' price tags, which have shown strength this year, are likely to hold above the levels of corresponding months a year earlier with few exceptions.

Summer fresh vegetable production is estimated slightly below 1970, but melons substantially less. Prices for most items probably will show some seasonal decline but remain higher than a year earlier.